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United Nations Office for Project Services

Annual report of the Executive Director on the activities of the United Nations Office for Project Services*

Summary

The present report is submitted pursuant to Executive Board decision 94/32 of 10 October 1994. The report provides an overview of performance in 2003 against financial targets in the UNOPS business plan and reviews UNOPS activities during the year.

The year 2003 was the first in a multi-year transition and recovery phase for UNOPS. A new Executive Director assumed his functions on 1 August 2003. In 2003, UNOPS recorded income exceeding recurring and non-recurring administrative expenditures, thereby adhering to the self-financing principle of the organization. The organization invested in the new UNDP/UNFPA/UNOPS enterprise resource system known internally as ATLAS and embarked on an overall change management process.

Pursuant to Executive Board Decisions 2003/27 and 2004/3, the Executive Director reports on the updated 2004-2005 budget estimates and reports on consultations concerning the vision, mandate and governance of UNOPS. Internal oversight issues are addressed in DP/2004/28.

Elements of a decision

The Executive Board may wish to:

(a) take note of the Annual Report of the Executive Director, including the report on the 2003 year-end financial performance and the revision to the 2004-2005 budget projections; and

(b) endorse the proposal of the Executive Director to extend the UNOPS role in the provision of services for infrastructure and public works.

* The collection of data required to present the Executive Board with the most current information has delayed submission of the present document.

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I. Introduction

1. The present report is submitted in compliance with Executive Board decision 94/32 of 10 October 1994, in which the Executive Director of the United Nations Office for Project Services (UNOPS) was requested to report annually on the activities of UNOPS.

2. Pursuant to Executive Board decision 95/1 of 10 January 1995, the present report has been reviewed by the Management Coordination Committee (MCC).

3. At the first regular session of the Executive Board in 2004, the Executive Director submitted to the Executive Board a report on the implementation of the UNOPS budget 2003 together with the projected income and expenditure figures for 2003, including the level of the operational reserve (document DP/2004/6). The present report complements the information provided to the Executive Board in document DP/2004/6, assesses performance against targets approved by the Board in June 2002 (DP/2002/CRP.10) and provides an update on the 2004-2005 budget estimates.

4. At the first regular session of the Executive Board in 2004, the Executive Director presented a report on the implementation of the UNOPS change management process (DP/2004/7). Pursuant to Executive Board decision 2004/3, the Executive Director reports on progress concerning the change management process, client consultations, and the vision, mandate and governance of UNOPS.

II. Implementation of 2003 budget and 2003 financial performance

A. Summary of 2003 performance

(See annex.)

5. The year 2003 was the first in a multi-year transition and recovery phase for the United Nations Office for Project Services (UNOPS, or 'the organization').The new Executive Director assumed his functions on 1 August 2003. In this multi-year effort, the organization set out to strengthen its financial condition, improve its competitive positioning, and properly align people, processes, and technologies to acquire new business and meet client and market needs cost-effectively and efficiently.

6. The UNOPS business model is highly sensitive to margin management. In 2003, margins on project portfolio services continued to decline as clients, many of whom are also under cost reduction pressure from their funding sources, pushed UNOPS to deliver its services more efficiently and at a lower cost.

7. In 2003, UNOPS expenditures totaled $47.8 million. UNOPS was able to reduce and stabilize its costs, while effectively meeting client needs, by maintaining its 2002 cost-cutting measures. These measures also implied further deferring and/or reducing information and technology investments and deferring operating system investments and staff training.

8. To position UNOPS for long-term viability, management must make a series of strategic investments in 2004 and 2005. In summary, the 2003 business and financial

results are in line with the UNOPS projections submitted to the Executive Board in January 2004.

B. Management discussion and analysis of UNOPS operations in 2003

Business acquisition

9. For fiscal year 2003, business acquisition is defined as projects, loans and services agreements signed and approved between January 1, 2003 and December 31, 2003. UNOPS is keenly aware that acquiring the 'right' new business in the 'right' way is critical for the organization's long-term viability. However, the business acquisition process is challenging, since: (a) project, loan and advisory services acquisition and delivery are cyclical[1] and can be random (as in the case of crisis events); (b) the portfolio acquisition cycle can be relatively long; (c) a number of United Nations-system partners still prefer to maintain in-house service capacity rather than outsourcing to an entity such as UNOPS; (d) barriers to exit and switching costs, for both UNOPS and its clients, are very high; (e) agreement or contract periods are relatively long; and (f) client decision-makers are shifting from headquarters-based personnel to field-based personnel.

Analysis of ongoing operations

Delivery

10. In 2003, UNOPS project delivery remained on track. Delivery increased by $6.2 million, or 1 per cent over an original target of $484.4 million. The 1 per cent increase is remarkable given the rebuilding and transition initiatives of the organization and reflects positively on the strong commitment and focused efforts of both clients and staff. 2003 actual project delivery of $490.6 million was $5.5 million higher than 2002 actual project delivery of $485.1 million.

11. In schedules 1, 2, and 3, UNOPS 2003 delivery is shown by client source of funds, commodity, and geographic perspective, respectively.

Schedule 1

2003 project delivery by client source of funds
(in $ millions)

Client source of funds	Amount	Percentage
UNDP-funded	$ 79.3	16%
UNOPS as implementing agent	$ 25.5	5%
Other United Nations organizations	$197.3	40%
Trust funds		
Montreal Protocol	$ 8.0	2%
Global Environmental Facility	$ 34.9	7%
United Nations Capital Development Fund	$ 1.6	0%
Other trust funds	$ 37.3	8%
Subtotal trust funds	$ 81.8	17%

[1] Project funding for most UNOPS clients is based on regular one- to four-year financing cycles. UNOPS must therefore manage its key clients' funding cycle proactively during the business acquisition process.

Management service agreements		
Japan*	$ 44.8	9%
World Bank	$ 9.4	2%
Other	$ 52.5	11%
Subtotal management service agreements	$105.7	22%
Total	$490.6	100%

**These funds are derived from the Japanese procurement programme. This amount will decline in future years.*

Schedule2
2003 project delivery by commodity type
(in $ millions)

Commodity	Amount	Percentage
Equipment and goods	$118.2	24%
Personnel contracting services	$136.0	28%
Services and works contracting	$214.2	44%
Training services	$ 15.7	3%
Miscellaneous activities	$ 6.5	1%
Total	$490.6	100%

Schedule 3
2003 project delivery by geographic region
(in $ millions)

Geographic region	Amount	Percentage
Africa	$101.5	21%
Latin America and the Caribbean	$ 59.2	12%
Asia-Pacific	$ 85.7	18%
Europe and the CIS	$ 74.0	15%
Arab States	$119.3	24%
Global and interregional programmes	$ 50.9	10%
Total	$490.6	100%

Given the dollar amount of donor funds directed to Africa and well-known constraints in absorptive capacities, UNOPS believes that significant expansion opportunities exist in Africa. Similarly, UNOPS intends to expand its portfolio acquisition in Latin America and the Caribbean under the pilot programme, approved by the Executive Board, for direct cooperation with regional and sub-regional banks.

Revenues

12. In 2003, UNOPS generated $66.2 million in total revenues. Actual 2003 revenues exceeded 2003 approved revised revenue estimates (DP/2003/38 and Executive Board decision 2003/26) of $44.5 million. This increase was the result of one-time advisory services for contract amendments that UNOPS was requested to provide under the United Nations Office of the Iraq Programme.

13. The annex, on page 19, is a comparative and common-size statement of revenue, expenditures and changes in fund balances for the years ended December 31, 2003, December 31, 2002 and the biennium ended December 31, 2003. Common size statements are used to draw insights into the performance of differently sized (in terms of assets and revenues) organizations in the same sector or into one organization over time. Project services (or total support costs and fees) continued to provide the largest percentage of total UNOPS revenue ($34.5 million of $66.2 million, or 52 per cent). The percentage of total support costs and fees contributed from various client sources of funds is as follows:

- 21 per cent from management service agreements (MSAs)
- 35 per cent from projects conducted on behalf of other United Nations organizations
- 26 per cent from UNDP projects
- 18 per cent from trust fund projects

14. In general, UNOPS has experienced downward price pressure from its clients. The average fee rate that UNOPS earned from project services has decreased from 7.65 per cent in 2001 to 7.04 per cent in 2003.

15. In 2003, UNDP remained the primary client of UNOPS, accounting for 41 per cent of UNOPS support costs and fee revenue ($14.3 million of $34.5 million). Revenue generated from the loan supervision and administration portfolio – primarily International Fund for Agricultural Development (IFAD) loans – increased from $6.4 million in 2002 to $7 million in 2003. UNOPS continues to be a valued partner of IFAD and other lending institutions because of its acknowledged expertise in loan supervision and disbursements. Interest income remained small and relatively flat over the two-year period spanning 2002 and 2003. A small but steady source of income was generated primarily by sub-leasing space in the Chrysler Building.

Expenditures

16. In 2003, expenditures totaled $47.8 million, or $2.5 million over 2002 actual expenditures. As is typical for a service organization, the majority (60 per cent) of total expenditures relate to staff salaries and benefits.

17. The $27.9 million spent on staff costs in 2003, however, is similar to the amount spent in 2002. Staff costs for the biennium period 2002-2003 ($57.8 million) have declined when compared to the biennium period 2000-2001 ($66.7 million), reflecting the impact of the prior year's staff reduction exercise.

18. Contractual services, equipment, communications, travel and general operating expenses in 2003 equaled $9.2 million. UNOPS paid $5.4 million in reimbursements to UNDP and the United Nations for a range of central and operational support services.

19. The introduction of a single-instance enterprise resource planning system, known internally as Atlas, for five United Nations organizations significantly increased the UNOPS cost base. UNOPS spent $3.1 million, or 7 per cent of its total expenditure base, on conceptual design, gap analysis, detailed design, technical interfaces with legacy systems, testing, conversion, data scrubbing, and training activities. This actual amount was more than twice the budgeted amount of

$1.4 million, which was comprised of $700,000 in payments to UNDP for the system itself and $700,000 in equipment and other contracted services).

20. Finally, in 2003, UNOPS paid $1.7 million as a one-time, lump sum settlement for outstanding reimbursements to the United Nations and UNDP for administrative services and costs.

Gross margins on project services

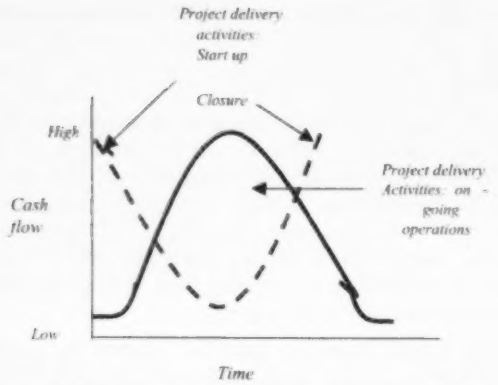
21. Gross margin is typically defined as net revenue less cost of acquisition. The cost of acquisition is the direct cost incurred to deliver the project or service to the client. Direct costs include the salaries and benefits of client delivery and direct marketing personnel and direct information technology (IT), office equipment, telecommunications, occupancy, travel, and other costs. The declining margins are caused by three primary factors: (a) UNOPS service locations (New York, Copenhagen, Rome and Geneva); (b) its pricing methodology for project services; and (c) inefficient, non-technologically enabled work processes.

22. The project services pricing model currently used by UNOPS is highly simplistic. Revenue is equal to a flat, negotiated percentage fee multiplied by the dollar value of project-related expenditures. For example, if the flat fee were 10 per cent and the project-related expenditure were $100,000, UNOPS would earn $10,000. This flat percentage fee remains in effect during the lifetime of the contract and over the life cycle of the project – from start-up through management to project closure. UNOPS receives cash from clients quarterly – when bills are generated.

23. Two significant shortcomings are involved. First, during the start-up and close-down phases of a project, UNOPS cash flows (inflows and outflows) may not be properly matched. During the start-up phase, for example, UNOPS must continue to pay for project delivery personnel salaries, occupancy, travel, and equipment. These UNOPS-funded costs lay the groundwork so that the project can be executed effectively (e.g., mobilize team, generate detailed work plans, and properly set expectations and service agreements with clients). However, no cash inflow is generated by these activities because no procurement activities are conducted. Similarly, during project closure and evaluation, the project delivery personnel tie up loose ends and complete required paperwork – costly activities that do not generate revenue during the time period these activities are conducted.

24. As shown in figure 1, the cash inflows and outflows related to project delivery activities form a bell-shaped curve and an inverted bell-shaped curve, respectively. If total cash is shown on the y-axis and time is graphed on the x-axis, then cash inflow would be a standard bell shaped curve (solid line) and cash outflow would be an inverted bell shaped curve (dotted line).

Figure 1
Cash flow patterns related to project implementation and execution activities



25. The mismatch of cash outflows and cash inflows on a period-by-period basis is not an issue for UNOPS as long as the entire project portfolio is balanced – meaning that positive cash flow projects exceed net negative cash flow projects for each relevant time period. However, the UNOPS portfolio is not balanced, and it currently contains several large, cash-flow negative projects such as Montreal Protocol, which is currently in the closure phase, and the Nile River Basin Project, which is in the start-up phase. Second, this flat fee remains in effect over the lifetime of the contract. Project service contracts range from one to seven years in duration, with an average duration of 3.5 years. While UNOPS personnel costs are affected by two uncontrollable factors, (a) annual United Nations-wide base salary and cost of living adjustments, and (b) exchange rates between the dollar and other currencies; under its current pricing model UNOPS is unable to pass along these cost increases or savings.

26. UNOPS management is aware of this services pricing issue and for the last four years has flagged it as a priority. In fiscal year 2004, UNOPS will examine the project acceptance process and implement more rigorous financial screens. The financial screening process will examine: (a) the 'net present value' of the business versus the 'net present value' of the cost to deliver the business; delivery costs will include business development and acquisition costs as well as direct and indirect delivery costs; (b) the lifetime value of the client – its entire business relationship history; and (c) the diversity of the overall book of business from a client or source of funds, geographic considerations; service type; and the execution risk perspective. Additionally, UNOPS management will investigate the possibility of pre-billing its clients. This 'front-loading' would more equitably distribute the working capital 'float' that UNOPS must currently finance.

27. The third factor that has caused UNOPS project service margins to decrease is the organization's often ineffective and non-technologically enabled work processes. Others result from a failure to examine policies and processes over which the organization has control to determine whether these processes are value adding, value neutral or value destroying from both a client perspective and an organizational bottom-line perspective. Historically, UNOPS information technology systems were often neither enabling nor state-of-the-art. To streamline

and in some cases eliminate specific non-value adding, non-risk mitigating work steps, UNOPS management plans to revise its current financial rules and regulations and re-engineer its processes to better leverage the Atlas system.

C. Fund balance: operational reserve and working capital

28. As of December 31, 2003, UNOPS had a fund balance of $23.2 million. This amount was composed of $6 million in operational reserve and $17.2 million in working capital.

III. Analysis of UNOPS year-to-date performance for the four months ended 30 April 2004

Business acquisition, delivery, revenue and expenditure to date

29. UNOPS acquired $147 million in new business during the first four months of 2004. Delivery on existing portfolios has been below the expected target and stands at $138 million. This delivery shortfall relates to a considerable extent to PeopleSoft/Atlas procurement problems. Currently, UNOPS is experiencing problems creating and dispatching purchase orders and approving purchase orders and vouchers using the automated workflow application.

30. Using as a projection basis for income the average actual fee level of 6.85 per cent generated on project delivery in the first four months of the year, UNOPS estimates that it has earned $9.5 million from project delivery. Currently, because of Atlas system limitations, UNOPS cannot recognize revenue earned monthly. Revenue has been estimated based on project expenditure information extracted from the Atlas commitment control table.

31. The year-to-date expenditures are $12.6 million. To date, UNOPS has incurred approximately $320,400 on Atlas-related activities. These activities relate to staff costs and coordination costs with the other Atlas-implementing agencies. Atlas spending, however, is expected to ramp up considerably in the second half of the year.

IV. Preliminary 2004 budget projections

A. January 2004 projections: underlying assumptions and data quality

32. UNOPS is determined to manage its business better and to satisfy the needs and expectations of an increasingly demanding client base. The existing planning and budgeting reality of UNOPS has been one of forecasting based on extrapolating from historical trends. The underlying information and database can only be described as opaque. Indeed, one objective of senior management for 2004 is to upgrade the UNOPS business planning and forecasting capacity considerably.

33. To understand its business better and provide the Board with complete and accurate data, UNOPS engaged in a time-consuming effort to forecast revenues and

expenditures. Senior management deliberately departed from past practices, which had included business not yet acquired in the overall forecast. The planning benchmark used in prior years – the 7.3 per cent fee rate – was revised downwards to a level of 6.85 per cent, reflecting the actual rate of fees earned since 1 January 2004.

34. The preliminary forecast presented in January 2004 was based on an annual project portfolio size of $485 million, earning income at a rate of 7.3 per cent. The planning and forecast assumptions underlying that forecast have now been revised.

B. Preliminary projections for 2004: a conservative forecast

35. A conservative projection of the 2004 revenue and expenditure data indicates a revised gross project delivery of $429 million. At a revised average income rate of 6.85 per cent, annual revenue generated under the project portfolio would amount to $29.38 million. Additional revenue of $9 million is generated through the IFAD loan portfolio, income derived from rental of Chrysler building premises and other miscellaneous income. The revised total income projection for 2004 thus stands at $38.38 million. This forecast does not take into account business acquisition initiatives now under way, or potential additional income to be derived from further business likely to be generated as a result of the aggressive 2004 business acquisition strategy. Exclusion of this potential income is a significant departure from past UNOPS practice. Recurrent expenditures, exclusive of change management and Atlas-related expenditures, are projected to be $43.67 million. UNOPS senior management is in the process of revising this initially projected expenditure to align expenditure with income.

36. By this conservative projection, 2004 expenditures would exceed revenues by $5.39 million. However, strict curtailment and monitoring of expenditures, combined with further business acquisition generating additional income in 2004, are expected to reduce such a deficit.

37. The UNOPS change plan will remain in place throughout 2004 and into 2005. The change management budget is seen as an investment in the future of UNOPS. The 2004 budget policy for the UNOPS general operating budget will rest on two pillars: (a) enhancing revenue by accelerating business acquisition in a coordinated and focused manner, while simultaneously (b) accelerating delivery. A conservative expenditure policy will be applied. Senior management will pursue containment of the general operating costs. Revenue and expenditure levels of the organization will be reviewed in detail, in an ongoing manner, by the senior management team.

V. Change management programme

38. UNOPS was created as a service provider and general contractor with no substantive mandate. The organization was to draw its principles and values from the Charter of the United Nations, and its operational methodologies from the world of international business. UNOPS change management initiatives will realign and position UNOPS as a client-centred organization that contributes effectively to the realization of (a) the United Nations' overarching mandate; (b) the Millennium

Development Goals (MDGs); and (c) the peace and development agenda. UNOPS strives to be a constructive partner in the United Nations reform process.

39. The UNOPS change plan will be a multi-year effort. Unless target clients are confident that UNOPS is competently managed in the short term and will flourish in the longer term, acquisition opportunities may be lost, employee morale and productivity may decline, and client service levels may decrease.

40. Critical investments in its operating systems, which had been neglected for years, will be re-energized in 2004 and 2005. Over time, the change management budget investments will create the required infrastructure to move UNOPS into a position to increase revenue and reduce and stabilize costs.

A. Update on progress achieved

41. In accordance with the structure reviewed by the Executive Board in its January 2004 session, all UNOPS senior management posts below Executive Director level were advertised, candidates were assessed, and the new leadership team was identified and selected. Members of the new leadership team started assuming their functions on 1 May 2004 and all will be fully on board by 1 August 2004. The new senior management retreat took place from 19 to 25 April. The retreat initiated the process of team building and generated commitment to agreed qualities, standards and values of leadership.

42. Considerable time was spent focusing on client requirements and the quality of UNOPS service delivery, including financial reporting. Specific reviews included:

(a) A client services review of every portfolio across the organization, including the support provided to each portfolio and the income generated from the work;

(b) A corporate services review of the existing functions, decentralization required, and future capabilities needed to more effectively support the business;

(c) A discussion of the realignment of staff and portfolios in the new regional structure;

(d) A detailed review of income and expense budgets; and

(e) Planning for the management and staffing transition.

43. Effective 1 May 2004, the recent mix of thematic and geographic divisions ceased to exist and has been replaced by six client service offices: the Asia and the Pacific office, to be moved from Kuala Lumpur to Bangkok; the Europe, Northern Africa and Western/Central Asia office in Geneva; the Latin America and the Caribbean office to be located in Guatemala City; the Western and Central Africa office in Dakar; the Eastern and Southern Africa Office in Nairobi; and the Global and Interregional Programme office in New York.

B. Change management priorities

44. UNOPS management is committed to spending a significantly greater amount of its time, energy and resources on strengthening the organization's revenue and expenditure forecasting and performance management capabilities.

45. In DP/2004/7, UNOPS management identified four initiatives which were collectively labeled the "change plan for 2004." The four initiatives, estimated to cost $8.4 million, to be financed from UNOPS working capital, are listed below:

(a) Organizational restructuring;
(b) Business development and process improvement;
(c) New systems and technology infrastructure; and
(d) UNOPS cultural alignment.

46. For the remaining six months of 2004, UNOPS senior management will place priority on continuity management. In the medium-term, for fiscal years 2004 and 2005 and most likely beyond, UNOPS proposes to engage in six change management initiatives. These six initiatives, collectively referred to as the UNOPS change management programme, are expected to yield financial results from 2004 to 2007.

The six key initiatives

47. The six key initiatives, together with their cost and expenditure to date, are shown in schedule 4 below.

Schedule 4
UNOPS 2004-2005 change initiatives

Initiative name	Total budgeted cash outflow	Funds expended to date
1. Corporate strategy and operating model	$0.4 million	$0.0 million
2. Process optimization	$0.8 million	$0.0 million
3. Enabling technology modernization and stabilization	$4.7 million	$0.3 million
4. Business acquisition	$1.0 million	$0.3 million
5. Overall programme and communication change management	$1.5 million	$1.2 million
6.Location rationalization and other housekeeping activities	$2.5 million	$0.0 million
Total	$10.9 million	$1.8 million

Corporate strategy and operating model

48. UNOPS has been the object of many reviews. The 2003 independent review was the latest in this series and focused on internal structural, governance, and behavioural issues. However, management believes that the study did not sufficiently address the market position of UNOPS. A critical first task in the change initiative is the focusing and enunciation of the corporate strategy and operating model. UNOPS will report on the definition of these to the January 2005 Executive Board Session.

49. Corporate strategy answers the questions: What business is UNOPS in? What is UNOPS good at? What customer needs does the organization meet? What markets

does it serve (geographic locations, customer segments)? Who are its competitors? How has the nature of competition changed since the inception of UNOPS? How will the future of the development, peacekeeping, peace-building, and humanitarian fields influence the unique role of UNOPS? How are its services different and better from its competitors? Where and how does UNOPS add value? How does it judge and measure its success in financial, customer and employee satisfaction, and operational terms?

50. Once the corporate strategy has been set, an operating model will be created. The operating model will answer the questions: Where should UNOPS be located? Under which rules, regulations, and other parameters should UNOPS operate? What screening criteria (financial, operational, strategic, and risk) and processes should UNOPS use to accept or reject business? How should UNOPS systems be configured? What competencies and skill sets, career development programmes, and employee profiles are needed to best deliver UNOPS services and meet UNOPS client needs?

Process optimization

51. UNOPS must get its workflow processes properly structured and sequenced to deliver on time, on quality, on scope, and on budget. Clients pay UNOPS to tell them how, where, when and on what project money was spent. If UNOPS cannot provide clients with this basic information, UNOPS is not doing its job. Client reporting may be the single most critical factor in determining client satisfaction. Client reporting is a mandatory, contractually obligated service that must be rendered to customers completely, accurately, and in a timely manner. As part of its change management and restructuring effort, UNOPS will focus on improving work processes pertaining to client reporting, imprest accounting, payroll, and general procurement.

Enabling technology modernization and stabilization

52. Due to resource constraints, UNOPS was unable to participate as actively in the Wave 1 rollout of the Atlas system as was both desired and required. In April 2004, UNOPS appointed a full-time Atlas manager. The new manager is working closely with UNDP on an updated, integrated plan for the remainder of the year. Atlas is the UNOPS definitive financial system of record, and the organization is at serious risk if immediate, major investments are not made to ensure alignment of staff with system processes for reporting. The incoming Chief Financial Officer will thus be the business sponsor of Atlas initiatives in 2004. Further, the UNOPS 2004 technology initiatives will involve installation of an upgraded universal e-mail system.

Business acquisition

53. To be financially viable, UNOPS must acquire new business. This initiative strengthens acquisition pipeline management and monitoring discipline and invests in client relationship activities with key emerging clients and markets to generate new business.

Overall programme and communication change management

54. Three critical yet often overlooked components of any change management programme are monitoring, communication, and business case tracking. Has the money spent yielded measurable results in the financial statements? What key

metrics were affected? Are key constituents, employees, suppliers, governing bodies and donors aware of the changes occurring and the results achieved? Were the estimated project budgets in line with actual expenditures? Is the project on schedule? If not, what should be accelerated or dropped? What are the key risk areas, and how is this risk being mitigated?

Relocation rationalization and other 'housekeeping' activities

55. To service its clients effectively, UNOPS has offices in a variety of locations. However, some of these do not logically align with the new, regionally organized UNOPS portfolios, nor are they in close proximity to some of the major clients of UNOPS. By consolidating and rationalizing service locations, UNOPS can reduce its ongoing operating costs by approximately $200,000 in 2004. Specifically, the UNOPS office in Kuala Lumpur will be relocated to Bangkok; the Africa 1 Division (Eastern and Southern) will be consolidated in the Nairobi office; the Latin America and Caribbean operations will be centred in one regional office; and the Western Asia, Arab States and Europe Divisions in New York will be consolidated in Geneva for the present, but will be reviewed again once UNOPS has defined its operating model.

Expenditures to date

56. To date, UNOPS has spent $1.2 million on these change initiatives. Sixty-five per cent, or $780,000, of these total expenditures was spent on overall change management programme development, the recruitment, assessment, selection, and hiring of the new senior management team, and the review and revision of the cost and revenue structure of the organization. $342,000, or 29 per cent, has been spent on acquiring new business (special field missions and client consultations, as well as the implementation facilities UNOPS has established in Liberia and the Sudan, and for Iraq).

C. Continuity management: what will *not* change and why

57. Over the past several years, UNOPS staff have experienced crisis management, uncertainty and increasing performance pressure. While change management is critical to refocus and re-energize UNOPS, *continuity* management is equally important. Staff must know and fully understand what will *not* change and why.

58. To date, staff, governing boards and other interested parties have received what might appear to be conflicting or contradictory messages of the difficulties encountered and positive progress achieved. The messages were given and decisions taken based on the best information available at the time.

59. While not every staff member will be involved in the six key initiatives, all staff will be affected by them. UNOPS must maintain stability while rebuilding efforts continue. The logic of bringing UNOPS close to its clients, of service delivery, cost-effectiveness and consolidated accountability lines will guide our efforts. The organizational restructuring plan is being reconfigured into two phases. Phase 1, to be completed in 2004, will see the realignment and appropriate decentralization of client service offices. The new configuration is composed of five decentralized regional offices and our global office in New York.

60. Decisions on the realignment of corporate services and continued devolution to less expensive cost centres will be taken early in 2005, once existing operations have been stabilized and the early impact of change efforts is reflected in the financial statements. Finally, UNOPS human resources will need to be realigned to better meet the needs of its clients. At the outset, UNOPS is more than the sum of its systems, budgets, and work processes. UNOPS is an organization with highly dedicated staff based both in the field and at headquarters locations. Our staff are an asset to the United Nations system as a whole. Apart from the relocation decisions mentioned above, until existing operations have been stabilized and further analysis conducted, constituents should not expect further radical reconfiguration.

VI. Atlas system issues

61. Five United Nations partners – UNDP, UNOPS, UNFPA, the United Nations Development Fund for Women (UNIFEM), and the United Nations Capital Development Fund (UNCDF) – went live with the new Atlas system on 5 January 2004. The system was intended to provide UNOPS and its implementation partners with functionality that was on a par with the old legacy systems (such as IMIS and Funds Control) *plus* a significant number of new features found in commercially available systems. Wave 1 of Atlas has not yet provided UNOPS with functionality on a par with the prior systems. As a result, UNOPS must maintain its legacy systems to support ongoing statutory and client reporting in 2004.

62. The rollout for Wave 2 of the Atlas system was initially planned for May 2004. The five partner organizations, however, have tentatively rescheduled the Wave 2 rollout for the autumn of 2004 due to technical, process and behaviour challenges and constraints connected with Wave 1. As previously stated, UNOPS was unable to participate as actively in the Wave 1 rollout as was necessary. Since the functioning of the Atlas system is critical for UNOPS, the organization will very actively ensure that both Wave 1 and Wave 2 modules are configured to support its current and future operations adequately.

63. To ensure that the Atlas project receives the necessary management focus and a critical mass of people with the right skill sets, UNOPS senior management has assigned a new, full-time Atlas project manager to support UNOPS implementation. The project manager will systematically help to resolve current issues and ensure that UNOPS can provide timely, integrated financial reports. The lead role had previously been filled by a division chief who had worked on Atlas part-time while continuing to maintain his other full-time duties. The new Atlas manager will work closely with senior management on an updated, integrated plan for the remainder of the year. The incoming Chief Financial Officer will be the sponsor of UNOPS Atlas initiatives in 2004. UNOPS expects that Atlas will continue to require considerable investment in addition to the across-the-board staff time investment required.

VII. Governance and mandate

64. The UNOPS governance and mandate discussion – that is, the role and scope of services provided by UNOPS – cannot be seen in isolation from the overall change management goals pursued. Rather, proposals put forward are an integral

and critically important component of the UNOPS realignment and repositioning strategy.

65. Pursuant to Executive Board decision 2004/3, the UNOPS Executive Director conducted client and stakeholder consultations on the UNOPS vision, mandate and governance. The Executive Director has met with key clients to hear their concerns and ascertain how UNOPS can better meet their needs. Senior management has engaged in preliminary decisions with the United Nations Department of Peacekeeping Operations (DPKO), the United Nations Security Coordinator (UNSECOORD), Global Alliance for Improved Nutrition, the United Nations Human Settlements Programme (UN-HABITAT) and UNFPA on how to deepen and expand existing relationships.

66. Consultations were held with members of the Executive Board and senior officials of UNDP, the World Food Programme (WFP), the Office of the United Nations High Commissioner for Refugees (UNHCR) and other clients, including United Nations Children's Fund (UNICEF), which recently signed an agreement with UNOPS for procurement services coordination. The agreement builds on the recognized comparative advantages of the value-adding institutional elements of the two organizations. UNICEF-UNOPS cooperation is a means by which both organizations can pursue areas of common interest and cooperate to reinforce their contributions to the realization of the MDGs.

67. The UNOPS Executive Director participated in the United Nations Development Group (UNDG) Executive Committee Greentree retreat in January 2004. UNDG requested that UNOPS draft a position paper for the provision of common services. UNOPS views this as an opportunity to promote and contribute to United Nations efforts in the reform and streamlining of operations areas of activity. Additionally, UNOPS could usefully act as an outsourcing facilitator capable of supporting the United Nations in its effective operational response to sudden high surges in demand, by member states, for United Nations operations in crisis and transition countries. With the advent of a new Chief of Procurement, UNOPS expects to explore avenues for closer collaboration and complementarity between IAPSO and UNOPS. Similarly, UNOPS will explore with UNDP and other clients more systematic and innovative service support to clients' own execution modalities.

68. Most recently, UNOPS engaged in client consultations with IFAD. The Executive Director and UNOPS staff working for IFAD portfolios met in Rome from 26 to 29 April 2004 for a four-day workshop, including two days of broad-based consultations with concerned IFAD staff and managers. The consultations allowed for a thorough evaluation and reassessment of the UNOPS client relationship with IFAD. UNOPS and IFAD have agreed, in principle, to develop a new fee structure agreement by mid-2004 and to undertake a formal annual client relationship review.

69. These discussions all point to the need for an organization such as UNOPS and the menu of services that it offers.

A. Governance

70. Discussions have been held on governance matters with the Management Coordination Committee (MCC) and informally with Executive Board members. These include review of the UNOPS relationship to the Executive Board as well as the role and composition of the MCC. However, in consultation with the MCC, UNOPS senior management has decided to hold such discussions in abeyance, to enable it to focus on the immediate priorities of portfolio acquisition, delivery, business process improvements and staff alignment.

B. Mandate

71. The rapidly evolving work of the United Nations, the multiple expectations and demands placed on the system for its effective contribution to the realization of the MDGs, and its support to peace-building, security and development, coupled with member state expectations for United Nations reform, require an evolutionary and dynamic re-evaluation of the role and service provision of UNOPS.

Regional and sub-regional development banks

72. Executive Board decision 2004/3 authorized UNOPS, on a pilot basis, to initiate a dialogue with regional and sub-regional development banks to devise a strategy for cooperation. UNOPS is pleased to report a promising relationship with the African Development Bank (AfDB). UNOPS is building a working relationship with the AfDB by responding efficiently to a series of procurement requests from the central administration of the Bank. AfDB officials have visited UNOPS in Copenhagen and New York and reiterated their interest in UNOPS procurement support. UNOPS is working closely with the AfDB on a project in the Democratic Republic of the Congo called 'Initiative fleuves Congo Oubangui Chari' and on an AfDB-World Bank project in Rwanda, in close consultation with UNDP Rwanda. UNOPS has a tradition of cooperation with the Inter-American Development Bank. This cooperation is expected to be enhanced. In Peru, for example, UNOPS expects to sign an MSA in the near future for contract supervision activities. Other infrastructure initiatives are in progress in Afghanistan with the Asian Development Bank.

Common services

73. The report of the UNDG Executive Committee meeting of 6 January 2004, in reviewing the prospects for rationalizing country presence and movement to shared common services, states "there might well be some future role for UNOPS in providing certain common services at the field level". UNOPS was requested by the UNDG to outline a position paper for providing common services on a pilot basis to other United Nations organizations. In providing common services, UNOPS will capitalize on partnerships with other United Nations service providers such as the United Nations Joint Logistics Centre and DPKO in an effort to establish synergies and avoid overlaps or internal competition. To be effective in this endeavour, UNOPS will need to strengthen its operational field presence at appropriate locations. It is currently serving as secretary of the interagency Iraq common services working group in Amman, and provided consultancy services for the definition of the Cape Verde joint office initiative.

Infrastructure and public works programmes

74. UNOPS has significant experience in implementing infrastructure and public works programmes. Good examples of UNOPS capacity in this area of services are the labour-intensive public works programme and the national emergency employment programme in Afghanistan. UNOPS-World Bank cooperation for the implementation of the labour-intensive public works programme commenced in 2002. This cooperation has since expanded. During 2003 alone, UNOPS facilitated the set-up and management of over 40 local contracts, each exceeding $100,000, and managed another 270 small-value contracts for road repairs and extensions ranging from 1.3 km to 40 km. This universe of contracts established and managed by UNOPS provides for 7.78 million working days and reaches some 63,000 beneficiaries.

75. UNOPS wishes to expand its service provision through direct support to host governments in the infrastructure and public works area, which is of particular importance in transitional and post-conflict situations. Such services would address, for example, labour-intensive secondary or tertiary road construction, social infrastructure (such as schools, clinics and water supply) and rehabilitation in rural and remote areas. It may be recalled that, in the early part of the 1990s, UNOPS was equipped with a division fully dedicated to servicing infrastructure and public works programmes.

76. UNOPS will request discussion by the Board regarding the expansion of UNOPS service provision to work directly with governments in infrastructure and public works projects, where UNOPS has a recognized capacity and expertise that does not overlap with other United Nations agency mandates. The principle would be that such work should be part of explicit national priorities, as expressed in a national budget or development plan framework, and that the proposed collaboration would be endorsed by the United Nations Resident Coordinator.

Attachment 1
UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

Comparative and Common Size Statements of Revenue, Expenditures and Changes in Fund Balances for the years ended December 31, 2003 and December 31, 2002 and the biennium ended December 31, 2003
in US Dollars

	Comparative Statements			Common Size Statements		
	2003	2002	2002-2003	2003	2002	2002 to 2003
REVENUES						
Support Costs and Fees by Client						
UNDP - Funded Projects	$ 7,072,412	$ 9,713,197	$ 16,785,609	10.7%	22.2%	15.3%
UNOPS as Implementing Agency						
UNDP Funded Projects	1,728,867	1,727,736	3,456,603	2.6%	4.0%	3.1%
Trust Fund Projects	392,948	562,912	955,860	0.6%	1.3%	0.9%
Subtotal	2,121,815	2,290,648	4,412,463	3.2%	5.2%	4.0%
Projects Conducted on Behalf of Other UN Organzations	12,204,573	7,513,431	19,718,004	18.4%	17.2%	17.9%
Trust Fund Projects						
Montreal Protocol	644,490	1,339,436	1,983,926	1.0%	3.1%	1.8%
Global Environmental Facility (GEF)	2,018,823	2,192,822	4,211,645	3.0%	5.0%	3.8%
UN Capital Development Fund	130,247	368,636	498,883	0.2%	0.8%	0.5%
Other Trust Funds	2,861,392	2,963,494	5,824,886	4.3%	6.8%	5.3%
Subtotal	5,654,952	6,864,388	12,519,340	8.5%	15.7%	11.4%
Management Services Agreements (MSA)						
Japan	3,230,109	4,689,178	7,919,287	4.9%	10.7%	7.2%
World Bank Agreements	511,500	433,709	945,209	0.8%	1.0%	0.9%
Other MSAs	3,756,541	3,889,322	7,645,863	5.7%	8.9%	7.0%
Subtotal	7,498,150	9,012,209	16,510,359	11.3%	20.6%	15.0%
Total Support Costs and Fees	34,551,902	35,393,873	69,945,775	52.1%	81.0%	63.6%
Service Income - IFAD Loan Supervision, Global Fund, and PAPP	7,038,710	6,427,429	13,466,139	10.6%	14.7%	12.2%
Advisory Services Projects (Iraq)	23,414,022	607,784	24,021,806	35.3%	1.4%	21.8%
Interest Income	40,193	136,720	176,913	0.1%	0.3%	0.2%
Miscellaneous Income	1,218,909	1,126,119	2,345,028	1.8%	2.6%	2.1%
Total Revenues	$ 66,263,736	$ 43,691,925	$ 109,955,661	100.0%	100.0%	100.0%
EXPENDITURES						
Salaries and Wages	$ 20,707,456	$ 21,863,989	$ 42,571,445	31.3%	50.0%	38.7%
Common Staff Costs	7,262,382	7,948,533	15,210,915	11.0%	18.2%	13.8%
Official Travel	1,209,176	1,167,217	2,376,393	1.8%	2.7%	2.2%
Contractual Services	755,138	559,494	1,314,632	1.1%	1.3%	1.2%
General Operating Expenses	6,784,049	6,209,914	12,993,963	10.2%	14.2%	11.8%
Supplies	186,872	242,545	429,417	0.3%	0.6%	0.4%
Furniture and Equipment	255,226	228,591	483,817	0.4%	0.5%	0.4%
Cost of Services Provided by UNDP Country Offices and Other UN Agencies	1,770,021	2,245,032	4,015,053	2.7%	5.1%	3.7%
Cost of Central Services	5,343,565	3,129,511	8,473,076	8.1%	7.2%	7.7%
Subtotal	44,273,884	43,594,826	87,868,710	66.8%	99.8%	79.9%
Information Systems Project	-	-	-	0.0%	0.0%	0.0%
ERP Investment Cost	3,074,320	0	3,074,320	4.6%	0.0%	2.8%
Subtotal	3,074,320	0	3,074,320	4.6%	0.0%	2.8%
Provision for Doubtful Accounts	0	557,196	557,196	0.0%	1.3%	0.5%
Costs of Staff Separation Entitlements	379,913	1,116,276	1,496,189	0.6%	2.6%	1.4%
Host Government Contributions and Expenditures	113,095	(68,391)	44,704	0.2%	-0.2%	0.0%
Subtotal	493,008	1,605,081	2,098,089	0.7%	3.7%	1.9%
Total Expenditures	$ 47,841,212	$ 45,199,907	$ 93,041,119	72.2%	103.5%	84.6%
Excess (Deficit) of Revenues over Expenditures	**$ 18,422,524**	**$ (1,507,982)**	**$ 16,914,542**	**27.8%**	**-3.5%**	**15.4%**

Accounting basis: modified accrual